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**Schedule of Audit Reports  
Involving Federal Grants From  
July 1, 1995 to December 31, 1996**

From July 1, 1995, to December 31, 1996, the Bureau of State Audits issued reports on audits involving federal grants. The following schedule lists the reports issued and presents a summary of the report findings. The agencies' responses to these findings are included in each of the separate audit reports.

Federal Department/Federal Grant and Catalog Number	Report Title and Description
<b>Department of Agriculture</b>  Cooperative Forestry Assistance 10.664	Investigations of Improper Governmental Activities: January 1 through June 30, 1995 (I95-2, 8-8-95)  (1) A manager at the California Department of Forestry and Fire Protection made gifts of public funds in the form of Smokey Bear merchandise to state employees, volunteers, and others. The manager also authorized unnecessary and wasteful purchases of Smokey Bear memorabilia and related materials. Finally, the manager placed personal long-distance calls at the State's expense.
Cooperative Forestry Assistance 10.664	Department of Forestry and Fire Protection: A Review of Allegations Concerning the State's Management of the Federal Excess Personal Property Program (94101, 11-21-95)  (1) The Bureau of State Audits reviewed the Department of Forestry and Fire Protection (CDF) investigation of 28 allegations relating to potential theft and misuse of aircraft and aircraft parts loaned to the CDF through the Federal Excess Personal Property (FEPP) Program. The CDF determined that no action was called for in five of the allegations. The CDF took defensible disciplinary or corrective action for eight allegations. No additional action was necessary for eight other allegations because the evidence did not substantiate the allegations and no action was necessary for four allegations because the evidence did not indicate a violation of any law or regulation. However, for three allegations, the CDF determined that its employees did not comply with state or federal regulations.  (2) A review of the CDF's internal controls over the acquisition, disposal, loan, security, and physical inventory count revealed several weaknesses. The CDF is not counting, tagging, and reconciling its FEPP inventory, and the CDF does not accurately record FEPP property in its inventory records. In addition, the CDF is not adequately safeguarding

Federal Department/Federal Grant and Catalog Number	Report Title and Description
	its FEPP property.
<b>Department of Commerce</b>	
Economic Development— Technical Assistance 11.303	Trade and Commerce Agency: More Can Be Done To Measure the Return on the State's Investment and To Oversee Its Activities (95118, 4-24-96)  The following issues related to federal grants were reported at the Trade and Commerce Agency (agency).
Special Economic Development and Adjustment Assistance Program—Sudden and Severe Economic Dislocation and Long-Term Economic Deterioration 11.307	(1) The Office of Strategic Technology did not have a monitoring process in place to review federally required audits of subrecipients.  (2) The agency needs to improve its administrative and operational controls in certain areas. Certain operational policies and procedures need to be addressed by the Office of Business Development. Specifically, the Sudden and Severe Economic Dislocation Revolving Loan Program did not comply with all of its loan requirements, and the Old Growth Diversification Revolving Loan Fund program needs to address future monitoring responsibilities.
<b>Department of Transportation</b>	
Highway Planning and Construction 20.205	Investigations of Improper Governmental Activities: January 1 through July 31, 1996 (196-2, 9-16-96)  (1) An engineer at the Department of Transportation (department) had conflicts of interest when he participated in decision-making processes for the Devil's Slide project while maintaining a financial interest in a business entity that would benefit from the decisions. As a result, the department incurred unnecessary costs of approximately \$12,500, and the project was delayed.
Highway Planning and Construction 20.205	Orange County Transportation Authority: An Analysis of Its Financial Resources and Obligations (95121, 2-27-96)
Federal Transit Capital Improvement Grants 20.500	(1) Since its inception, Orange County Transportation Authority (OCTA) has received more than \$2.1 billion from various revenue sources and spent approximately \$1.7 billion on operations, capital projects, long-term debt, and possible losses resulting from the county's bankruptcy. The use of approximately 98 percent of OCTA's fiscal year 1994-95 revenues is limited to transportation purposes. Interest earnings and miscellaneous revenues not restricted by statutes, contracts, and official statements of debt previously
Federal Transit Capital and Operating Assistance Formula Grants 20.507	

Federal Department/Federal Grant and Catalog Number	Report Title and Description
Capital Assistance Programs for Elderly Persons and Persons With Disabilities 20.513	<p>issued make up the remainder of the revenues.</p> <p>(2) Based on legislation approved by the governor in October 1995, OCTA and the county exchanged revenue sources that can be used only for various transportation purposes. The purpose of the legislation was to aid in the county's recovery from bankruptcy. The net result over the 17 years of the mandated exchange will be a \$202 million loss in revenues to OCTA.</p>
<b>Small Business Administration</b>  Small Business Development Center 59.037	<p>Trade and Commerce Agency: More Can Be Done To Measure the Return on the State's Investment and To Oversee Its Activities (95118, 4-24-96)</p> <p>(1) The Trade and Commerce Agency (agency) needs to improve its administrative and operational controls in certain areas. For example, the Office of Small Business has not been proactive in providing needed guidance to and monitoring of some of the programs it administers. Specifically, the Office of Small Business has not provided approved and updated policies and procedures to the eight small business development corporations it contracts with to administer the Loan Guarantee Program, it has not ensured that it properly carried out its monitoring responsibilities for the Loan Guarantee Program or the Small Business Development Center Program, and it has not ensured that it is receiving accurate management information for its small Business Development Center Program.</p>
<b>Federal Emergency Management Agency</b>  Disaster Assistance 83.516	<p>Office of Emergency Services: Has Met Most of Its Emergency Management Responsibilities Despite Administrative Problems (95114, 1-31-96)</p> <p>(1) The Office of Emergency Services (OES) is very effective in responding to emergencies, quickly directing state and local resources to assist areas struck by disaster. In general, the OES is also doing a good job assisting the State and local governments prepare for emergencies to help mitigate the effects of disasters.</p> <p>(2) The OES's effectiveness in coordinating the disaster recovery effort is significantly impaired by certain policies and practices of the Federal Emergency Management Agency (FEMA), which provides most of the funding for state and</p>

Federal Department/Federal Grant and Catalog Number	Report Title and Description
<b>Department of Education</b>  Vocational Education—Basic Grants to States 84.048	<p>local government recovery efforts, and by its own inadequate practices. The OES's lack of an adequate system for managing documents created during the recovery process, tracking related costs for each disaster, and identifying its costs for reimbursement from FEMA delays access to important information needed for effective management of the recovery process.</p> <p>(3) Although it is able to meet its emergency management responsibilities, the OES has serious administrative problems. A series of major disasters in California since 1989 has overwhelmed the OES's ability to perform some of its basic functions, such as budgeting, hiring, and using information technology, exposing many inefficiencies in its administration. These inefficient practices have resulted in an administrative crisis in which the OES uses more resources than necessary and incurs extra costs for the State.</p>
	<p>California Community Colleges: The Chancellor's Office Inadequately Controlled Its Economic Development Program and, Along With the Department of Education, Circumvented State Contracting Procedures (94123, 1-4-96)</p> <p>The following issues affecting federal grant moneys were reported.</p> <p>(1) The Chancellor's Office and the Department of Education (department) circumvented state controls by using fiscal agents to obtain the services of The Resource Group (contractor) to prepare both the Vocational Education needs assessment and state plan. The Chancellor's Office and the department paid these fiscal agents approximately \$62,000 in administrative fees. Furthermore, the \$1.2 million paid to the contractor exceeded the budget for the needs assessment and the state plan by approximately \$120,000.</p> <p>(2) The Chancellor's Office and the department submitted erroneous and misleading information to the Department of General Services as support for requests for approval of contracts and amendments.</p> <p>(3) The Chancellor's Office allowed the contractor to begin work prior to approval of its sole-source contract, and the department allowed the contractor to perform services without having any formal agreement with either the</p>

Federal Department/Federal Grant and Catalog Number	Report Title and Description
Vocational Education—Basic Grants to States 84.048	<p>department or its fiscal agent.</p>
	<ul style="list-style-type: none"> <li>(4) Employees at two of the entities that the Chancellor's Office and the department used as fiscal agents, Chaffey College and East San Gabriel Valley Regional Occupational Program, had recently been employed by the contractor. Therefore, by using them as fiscal agents, the Chancellor's Office and the department may have caused them to violate the common law doctrine against conflicts of interest.</li> <li>(5) By using fiscal agents, the Chancellor's Office and the department lacked control over payments made for the needs assessment and the state plan. Therefore, the two agencies cannot ensure that the amounts paid to the contractor were appropriate or reasonable.</li> </ul>
	<p>Investigative Report: Misappropriation of Public Funds, False Claims, and Gross Mismanagement by Employees of the Department of Education (I940262, 9-9-96)</p> <ul style="list-style-type: none"> <li>(1) We received an allegation under the Reporting of Improper Governmental Activities Act that a manager of the California Department of Education (department) improperly managed the funds of a statewide student vocational club under the department's jurisdiction and the funds of a charitable corporation that received payments from departmental contracts. It was also alleged that he had a conflict of interest relating to his position as a monitor of departmental contracts and his position as an officer of the charitable corporation.</li> <li>(2) The manager submitted false claims that resulted in improper payments totaling over \$17,745 for his travel expenses.</li> <li>(3) The manager illegally exchanged at least \$4,100 in airline tickets purchased with federal funds for other tickets, which he used to take personal trips.</li> <li>(4) The manager appears to have influenced decisions by the department's fiscal agents to do business with his business associate, resulting in payments totaling more than \$26,300.</li> <li>(5) The manager was able to gain the above personal benefit at least in part because he used his various roles to improperly divert more than \$95,900 from a number of sources into the account for the California Association of Vocational Industrial Clubs of America Leadership Foundation.</li> </ul>

Federal Department/Federal Grant and Catalog Number	Report Title and Description
Rehabilitation Services— Vocational Rehabilitation 84.126	<p>(6) The manager made an improper political contribution.</p> <p>(7) The department may have violated limits on the amount of federal grants that can be spent for administrative expenses and the State's budgetary controls.</p> <p>Department of Rehabilitation: Business Enterprise Program for the Blind Financial Report Year Ended June 30, 1994 (93031, 8-22-95)</p> <p>(1) The financial condition of the Department of Rehabilitation's (department) Business Enterprise Program for the Blind (program) is sound. The program's revenues exceeded its expenses by approximately \$1 million. In addition, at June 30, 1994, the program had approximately \$4 million in cash and pooled investments, and its total assets exceeded its total liabilities by approximately \$14 million.</p> <p>(2) Although the financial condition of the program is sound, certain weaknesses were noted in the internal control structure. Specifically, the department does not ensure it receives all monthly operating reports, fees, vending machine commissions, and loan payments due from blind vendors. In addition, the department improperly used federal funds to pay for parts and materials associated with equipment repair, did not accurately report its liabilities at June 30, 1994, and has not adequately separated certain incompatible duties.</p>
<p><b>Department of Health and Human Services</b></p> <p>Child Support Enforcement 93.563</p>	<p>Child Support Pilot Projects: Effectiveness Cannot Be Determined With Existing Data (93023, 9-12-96)</p> <p>(1) The federal government and the State provide incentive payments to the counties based on certain standards of performance in the Child Support Enforcement Program, which is administered at the state level by the Department of Social Services (department). Some counties accumulate "excess incentive funds" when incentive payments exceed the costs of administering their Child Support Enforcement programs.</p> <p>(2) Special legislation allowed Merced and San Luis Obispo counties to divert a portion of their excess incentive funds to establish two-year pilot projects that addressed child-related issues outside their Child Support Enforcement programs.</p> <p>(3) The same legislation required the Bureau of State Audits to evaluate the effectiveness of the pilot projects using specified data pertaining to each county's Child Support Enforcement</p>

Federal Department/Federal Grant and Catalog Number	Report Title and Description
Child Care and Development Block Grant 93.575	<p>Program. However, we could not do this for two reasons. First, a direct relationship does not exist between the Child Support Enforcement Program data and the success of the pilot projects and second, even if the data did apply, our review indicates the data and statistics may not be reliable or comparable.</p> <p>(4) We also found that neither the counties nor the department developed any other type of relevant data or performance measures to evaluate the pilot projects. As a result, we were unable to determine whether the projects, which appear to provide worthwhile services, achieved their expressed statutory purpose of improving the counties' Child Support Enforcement programs.</p> <p>Department of Education: Has Not Spent Millions for Child Care and Development Services (94111, 8-2-95)</p> <p>(1) The Department of Education (department) could not tell us the demand for services offered by the child care and development programs it funded during fiscal years 1991-92 through 1993-94. The department also could not tell us the actual number of children currently served by its programs. In April 1995, the department reported to the Legislature that California provides subsidized child care and development services to less than 20 percent of eligible low-income families.</p> <p>(2) The department did not maximize its efforts to ensure the delivery of child care and development services; therefore, millions of dollars in state and federal funds remain unspent. For example, contractors providing child care and development services did not spend \$84.7 million that the department had allocated them. In addition, the department did not allocate all of the federal Child Care and Development Block Grant funds it received.</p> <p>(3) Two department practices for reviewing and scoring applications for awarding child care and development contracts increased the risk that biased scoring decisions were made. In addition, the department did not consistently process appeals of contract awards, and the department's process for reviewing annual audit reports submitted by contractors was deficient.</p>
Foster Care 93.658	Los Angeles County: The Department of Children and Family Services Can Improve Its Processes To Protect Children From Abuse and Neglect (96106, 10-23-96)
Adoption Assistance	



Federal Department/Federal Grant and Catalog Number	Report Title and Description
93.659	<p>(1) The Department of Children and Family Services (DCFS) does not always comply with its own risk assessment policies related to protecting children from abuse, neglect, and exploitation. For 6 of 24 cases we reviewed, the risk assessment documentation was either missing, incomplete, or inadequately prepared. In addition, the risk assessment method used by the DCFS does not result in a standardized risk rating and, thus, it has less assurance that the most intense services are given to the most at-risk cases. Finally, when compared to different risk assessment methods used in some other states, the DCFS's method does not appear to be the best available.</p> <p>(2) The DCFS does not always comply with other child safety procedures. In particular, we found it does not always follow its own policy to visit children and their parents or caregivers once per month. Also, we noted that required criminal background checks on adults caring for children were not always obtained by the DCFS. Finally, we found that children's medical assessments were not obtained in a timely manner and required reports were not submitted to the court on time.</p>
<p>State Survey and Certification of Health Care Providers and Suppliers</p> <p>93.777</p>	<p>Department of Health Services: The Orange County District Office Needs to Further Improve Its Oversight of Health Care Facilities (94117, 7-27-95)</p> <p>(1) The Department of Health Services Orange County District Office (district office) responded from 1 to 213 days late for 35 percent of the complaints reviewed relating to health care facilities, with late responses in all three fiscal years reviewed from July 1992 through March 1995. In addition, the district office incorrectly assessed priority levels for 2 of 60 complaints reviewed.</p> <p>(2) The district office has not established guidelines for timely investigations and processing of citations and deficiency notices and, as a result, took longer than allowed to investigate and process them. The district office issued deficiency notices instead of higher level citations in 4 of 20 cases reviewed, and issued 29 percent of the citations we reviewed from 2 to 12 days late.</p> <p>(3) The district office did not perform all required inspections of health care facilities during our review period and performed</p>

Federal Department/Federal Grant and Catalog Number	Report Title and Description
Medical Assistance Program 93.778	<p data-bbox="716 386 1430 478">some inspections late. In addition, the district office did not always ensure health care facilities submitted timely plans of corrective action, as required, in 13 of 20 cases reviewed.</p> <p data-bbox="670 512 1430 575">Department of Health Services: Drug Treatment Authorization Requests Continue To Increase (95011, 8-1-95)</p> <p data-bbox="670 609 1430 856">(1) From December 1994 through May 1995, the Department of Health Services (department) processed approximately 319 percent more drug treatment authorization requests (TARs) than it did in the first six months of our review in 1990. The department had a backlog of 1,113 unprocessed TARs in May 1995. In comparison, its backlog of unprocessed TARs in November 1990 was 2,311.</p> <p data-bbox="670 877 1430 1255">(2) During the six-month period of December 1994 through May 1995, both of the department's drug units (located in Stockton and Los Angeles) generally met the state requirement for processing mailed-in TARs. We also found that the Stockton drug unit processed 92 percent of its FAX TARs within 24 hours of receipt; however, the Los Angeles drug unit processed only 53 percent of its FAX TARs within 24 hours of receipt. The average turnaround time for all FAX TARs reviewed at Los Angeles was 29 hours. Finally, during January and April 1995, the Los Angeles drug unit generally met the 24-hour turnaround requirement for drug TARs received via the Voice Drug TAR System (VDTS).</p> <p data-bbox="670 1276 1430 1621">(3) From December 1994 through May 1995, 84 fair hearing requests were submitted to the Department of Social Services to appeal a denied TAR, which represents a 31 percent increase over the six months ending November 1994. Of those, 4 were dismissed, 39 were withdrawn before the cases were heard, 3 were denied, 3 were approved, and the decisions on the remaining 35 were still pending at the time of our review. In addition, the department reported that it received few or no complaints from providers related to the amount of time taken to process TARs from December 1994 through May 1995.</p>
Medical Assistance Program 93.778	<p data-bbox="670 1659 1430 1722">Department of Health Services: Drug Treatment Authorization Requests Continue To Increase (96011, 1-30-96)</p> <p data-bbox="670 1755 1430 1875">(1) This report focuses on the drug Treatment Authorization Requests (TARs) the Department of Health Services (department) processed during the six months from June 1995 through November 1995. During this six-month period, the</p>

Federal Department/Federal Grant and Catalog Number	Report Title and Description
Medical Assistance Program 93.778	<p>department's processes for compiling drug TAR statistics were accurate. The department received 354,855 drug TARs from June to November 1995. This figure represents an increase of 276,357 (352 percent) received over the first six-month review period of June through November 1990 and is the highest level of activity since the beginning of these reviews. This increase was primarily due to changes in the governing code and a 41 percent increase in the number of people eligible to obtain drugs through Medi-Cal.</p> <p>(2) Of the drug TARs received from June 1995 through November 1995, the department processed 354,702. This figure represents an increase of 30,558 (10 percent) over the prior six-month period from December 1994 through May 1995. In November 1990, the department's backlog consisted of 2,311 unprocessed drug TARs. In comparison, the backlog in November 1995 was only 1,266 drug TARs.</p> <p>(3) Both of the department's drug units (located in Stockton and Los Angeles) met the state requirement for processing mailed-in drug TARs in one working day.</p> <p>(4) We also found that the drug units generally met the state requirement for processing FAX and Voice Drug TAR System (VDTS) drug TARs within one working day. Based on samples of FAX drug TARs randomly selected at each drug unit, we found that the Stockton drug unit met the requirement 99 percent of the time and the Los Angeles drug unit met the requirement 98 percent of the time. Based on a sample of VDTS drug TARs randomly selected at the Los Angeles drug unit, we found that the drug unit met the requirement 100 percent of the time. The Stockton drug unit did not process any VDTS drug TARs during the review period. We also found that the department's methods of measuring the time it takes to process a drug TAR were accurate.</p> <p>(5) From June 1995 through November 1995, 201 fair hearing requests to appeal denials of drug TARs were submitted to the Department of Social Services. This figure represents an increase of 139 percent over the prior review period, from December 1994 to May 1995. Of the 201 requests submitted, 75 percent were withdrawn or dismissed, 14 were denied, and 15 were approved. The decisions on the remaining 21 were still pending at the time of our review.</p> <p>Department of Health Services: Has Not Collected \$40 Million in Supplemental Rebates From Drug Manufacturers</p>

Federal Department/Federal Grant and Catalog Number	Report Title and Description
<p data-bbox="669 384 881 413">(95109R, 3-27-96)</p> <p data-bbox="196 863 532 919">Medical Assistance Program 93.778</p>	<p data-bbox="669 449 1430 827">(1) The Department of Health Services (department) has not collected approximately \$40 million in supplemental rebates owed to the State and the federal government by drug manufacturers because it has not adequately administered the California Medical Assistance Program drug rebate program. The department does not calculate, bill, and monitor specific supplemental rebate amounts owed by manufacturers who do not remit the required amounts owed to the State and the federal government. As a result, the State has not received \$20 million in supplemental rebates, and the federal government has not received its \$20 million share in supplemental rebates.</p> <p data-bbox="669 863 1430 919">Los Angeles County: Balanced Budgets Will Be a Continuing Challenge (96018, 3-28-96)</p>
<p data-bbox="669 957 1430 1020">The following issues related to the Medical Assistance Program were reported.</p> <p data-bbox="196 1625 532 1686">Medical Assistance Program 93.778</p>	<p data-bbox="669 1056 1430 1308">(1) In January 1996, Los Angeles County (county) announced that its shortfall for fiscal year 1996-97 is \$517 million. In addition, the likelihood of the county's achieving a balanced budget in fiscal year 1995-96 was subject to its successfully obtaining approval by the federal government of a \$346 million health-relief package and having many of its departments meet their targeted 20 percent net county cost reduction, producing a savings of \$155 million.</p> <p data-bbox="669 1344 1430 1593">(2) The county has been limited in the actions it can take to address budget shortfalls due to provisions in past collective bargaining agreements and employee contracts that have stipulated increases in employees' salaries and benefits. Also, the county has limited discretion over the spending of 90 percent of its General Fund revenue because these funds are specifically designated for operation of state and federal programs.</p> <p data-bbox="669 1629 1430 1686">Department of Health Services: Drug Treatment Authorization Requests Continue To Increase (96012, 8-1-96)</p> <p data-bbox="669 1709 1430 1892">(1) The Department of Health Services (department) processed 402,424 drug Treatment Authorization Requests (TARs) from December 1995 through May 1996. This figure represents an increase of 421 percent over the number processed during the first six-month period that we reviewed in 1990 and an increase of 13 percent over the number of drug TARs</p>

processed in the prior six-month period.

- (2) Although the number of processed drug TARs has continually increased since June 1990, the number of unprocessed drug TARs has diminished. In November 1990, the department's backlog consisted of 2,311 drug TARs, whereas the backlog in May 1996 was 1,743, a decrease of 25 percent. From December 1995 through May 1996, the department's processes for compiling drug TAR statistics were appropriate.
- (3) During the six-month period we reviewed, both the Los Angeles and Stockton drug units met the new requirement for processing drug TARs received by mail in one working day.
- (4) In previous audits, we validated the methods used by the drug units to calculate the length of time it took to process mailed-in drug TARs. However, the department conducted a study in March 1996 and determined that the method used to prepare the calculations was inefficient. As a result, in April 1996, the drug units discontinued calculating their turnaround time for mailed-in drug TARs. At the time of our review, the department still had not developed and implemented a new method. As a result, we were unable to validate the department's current methods for calculating the amount of time it takes to process a drug TAR in this audit.
- (5) From December 1995 through May 1996, 93 fair hearing requests were submitted to the Department of Social Services. This figure represents a decrease of 54 percent from the number of requests submitted during the prior review period.

Of the 93 requests submitted, 64 were withdrawn or dismissed, 4 were denied, 4 were approved, and the decisions on the remaining 21 were still pending at the time of our review.

Agency Receiving Federal Funds	Federal Grant and Federal Catalog Number	Description of Issue
<b>Schedule of Minor Federal Issues for the Year Ended June 30, 1996</b>		
Agency Receiving Federal Funds	Federal Grant and Federal Catalog Number	Description of Issue
California Community Colleges, Chancellor's Office	Vocational Education—Basic Grants to States 84.048	<p>(1) We examined 10 of 71 community college districts (CCD) for certification of the number of students participating in the Vocational Education program and found that one certification could not be located. While the California Community Colleges, Chancellor's Office could not find the certification, it was able to input the headcount from a computer disk submitted by the CCD.</p> <p>(2) For 3 of 71 Vocational Education program student head counts we reviewed, the Chancellor's Office could not provide documentation from the CCD for adjustments made to the final head counts used to allocate the apportionment. The Vocational Education Division's records consist of staff notes regarding telephone conversations.</p> <p>(3) The Chancellor's Office made a clerical error when it calculated the apportionment allocations. As a result, one CCD received approximately \$20,000 more than its entitlement and the 70 other CCDs received up to approximately \$2,600 less than their entitlements.</p>
California Student Aid Commission	Federal Family Education Loan Programs 84.032	<p>(1) For 2 of the 20 defaulted loan claims we reviewed, the California Student Aid Commission (commission) took longer than the 45-day maximum allowed by federal regulations to request reimbursement from the federal government. Specifically, the commission requested reimbursement for the claims 7 and 8 days late.</p>

Agency Receiving Federal Funds	Federal Grant and Federal Catalog Number	Description of Issue
		<p>(2) The commission did not provide the federal government with the required names and addresses of the five collection contractors and two supplemental preclaims assistance contractors who served as third-party servicers in the 1995-96 fiscal year. Upon our inquiry in April 1997, the commission notified the federal government of the names of the seven third-party servicers during this time period.</p>
<p>Developmental Services, Department of</p>	<p>Special Education—Grants to Infants and Families With Disabilities 84.181</p>	<p>(1) Although the Department of Developmental Services (department) has adopted complaint procedures, the department's written procedures do not specifically address notifying parents and other interested individuals of the complaint process as required by federal regulations. The department has developed draft written procedures, dated November 1996, that will meet the federal requirement, but as of March 1997, the procedures had not been formally adopted.</p>
<p>Education, California Department of</p>	<p>Job Training Partnership Act 17.250</p>	<p>(1) The Department of Education (department) did not review an audit report submitted by a Community Based Organization (CBO) for the Job Training Partnership Act grant within six months of the date of receipt. Specifically, as of November 1996, the department had not completed its review of an audit of a CBO for fiscal year 1992-93, even though the department received the audit report in October 1994. In addition, the department had not reviewed audit reports for the same CBO for fiscal years 1993-94 and 1994-95, that it received in March 1996.</p>

Agency Receiving Federal Funds	Federal Grant and Federal Catalog Number	Description of Issue
	Adult Education—State Administered Basic Grant Program 84.002	(1) The department's final financial status report that it prepared during fiscal year 1995-96 for the grant period ending September 1995, did not agree to the accounting records. As a result, the department overstated by approximately \$2,000 total reported expenditures of approximately \$28 million.
	Vocational Education—Basic Grants to States 84.048	(1) The department's final financial status report that it prepared during fiscal year 1995-96 for the grant period ending September 1995, did not agree to the accounting records. As a result, the department overstated by approximately \$17,000 total reported expenditures of approximately \$98 million.
Employment Development Department	Employment Service 17.207	(1) For one of the seven items we tested, the Employment Development Department (department) incorrectly charged travel costs, totaling \$22, to the Employment Service Program when the purposes of the travel benefited the Job Training Partnership Program.
	Labor Certification for Alien Workers 17.203	(1) The department uses ledger codes established by the Department of Labor to record cash received under the Labor Certification for Alien Workers Program. However, the department misreported approximately \$91,000 as Employment Service Program receipts to the State Controller's Office. As a result, the department's cash balances for those programs do not agree with balances maintained by the State Controller.
Health Services, Department of	Maternal and Child Health Services Block Grant to the States 93.994	(1) Although the Department of Health Services used special consideration to continue funding special projects originally funded prior to August 1981, it did not provide this required assurance in advance in its 1996 grant application.



Agency Receiving Federal Funds	Federal Grant and Federal Catalog Number	Description of Issue
Housing and Community Development, Department of	Community Development Block Grants— State's Program 14.228	(1) During fiscal year 1995-96, the Department of Housing and Community Development (department) did not reconcile its quarterly reports of federal cash transactions with its accounting records. Subsequently, the department corrected this problem and reconciled the federal cash transaction reports to its accounting records for the first two quarters of fiscal year 1996-97.
Mental Health, Department of	Block Grants for Community Mental Health Services 93.958	(1) During fiscal year 1995-96, the California Mental Health Planning Council had 16 out of 35 members who were not state employees or providers of mental health services, which was less than the 50 percent minimum required by federal regulations. In January 1997, the department appointed new members to meet this requirement.
Social Services, Department of	Social Security Disability Insurance 96.001	(1) For the quarter ending June 30, 1996, the Department of Social Services understated the time charged to the program by approximately 321 hours.
State Controller's Office	Various	(1) The State Controller's Office did not complete the single audit of one local educational agency for June 30, 1995, by the required deadline of June 30, 1996. The audit report was more than five months late.  (2) The State Controller's Office did not resolve audit findings identified in three of the ten audit reports we tested within the required six-month time frame. However, the findings were resolved two weeks after the required date.

Agency Receiving Federal Funds	Federal Grant and Federal Catalog Number	Description of Issue
State Water Resources Control Board	Capitalization Grants for State Revolving Funds 66.458	(1) For 1 of 57 loan repayments received during fiscal year 1995-96, the State Water Resources Control Board did not deposit the repayment until approximately two weeks after its receipt, resulting in lost interest to the program of approximately \$3,400.
Youth Authority, Department of the	School Breakfast Program and National School Lunch Program 10.553 and 10.555	(1) For 1 of the 12 monthly reimbursement claims we reviewed, the Department of the Youth Authority (department) incorrectly calculated the federal reimbursement. Specifically, the department did not use the revised copy of the monthly meals served report for one of the institutions. This resulted in the department overclaiming by \$2,259. In addition, for the three institutions reviewed, there were numerous instances in which the supporting detail for the monthly meals served reports contained errors. The errors ranged from underclaiming by \$283 to overclaiming by \$158. The net effect of the various errors resulted in the department underclaiming by \$41.

**Independent Auditors' Report on the  
Schedule of Federal Assistance**

## Independent Auditors' Report on the Schedule of Federal Assistance

The Governor and Legislature of  
the State of California

We have audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1996, and have issued our report thereon dated November 27, 1996. These general purpose financial statements are the responsibility of management of the State of California. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of California, taken as a whole. The accompanying schedule of federal assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*, and the Single Audit Act of 1984 require the schedule of federal assistance to present total expenditures for each federal assistance program. However, although the state's automated accounting system separately identifies revenues for each federal assistance program, it does not separately identify expenditures for each program. As a result, the State presents the schedule of federal assistance on a revenue basis. The schedule shows the amount of federal funds and the estimated value of food stamps and commodities received by the State for the year ended June 30, 1996. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole. A copy of California State University Schedule of federal assistance is presented on pages 195 through 202. These revenues were audited by other independent auditors, and our opinion, insofar as it relates to the California State University revenues, is based solely on the report provided by these auditors. The schedule does not include federal revenue received by the University of California. These revenues are audited by other independent auditors in accordance with the OMB Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Organizations*.

This report is intended for the information of the governor and Legislature of the State of California and the management of the executive branch. However, this report is a matter of public record, and its distribution is not limited.

BUREAU OF STATE AUDITS

PHILIP J. JELICICH, CPA  
Deputy State Auditor

May 16, 1997

**Schedule of Federal Assistance for the  
Fiscal Year Ended June 30, 1996**

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>		
<b>Department of Agriculture:</b>				
Agricultural Conservation Program	10.063	\$ 26,670		
Forestry Incentives Program	10.064	11,928		
Farm Labor Housing Loans and Grants	10.405	335,230		
Food Distribution	10.550	72,546,704	A *	
Food Stamps	10.551	2,612,363,227	A *	
School Breakfast Program	10.553	155,556,809	A	
National School Lunch Program	10.555	605,496,300	A	
Special Milk Program for Children	10.556	828,794		
Special Supplemental Food Program for Women, Infants, and Children	10.557	551,727,957	A	
Child and Adult Care Food Program	10.558	171,543,229	A *	
Summer Food Service Program for Children	10.559	3,486,535		*
State Administrative Expenses for Child Nutrition	10.560	11,801,601		
State Administrative Matching Grants for Food Stamp Program	10.561	253,929,337	A	
Nutrition Education and Training Program	10.564	772,466		
Commodity Supplemental Food Program	10.565	5,873,171		**
Emergency Food Assistance Program (Administrative Costs)	10.568	4,988,421		
Nutrition Program for the Elderly	10.570	11,869,944		
Food Commodities for Soup Kitchens	10.571	831,703		**

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>	
Cooperative Forestry Assistance	10.664	1,051,732	B
Schools and Roads—Grants to States	10.665	43,045,671	A
National Forest—Dependent Rural Communities	10.670	624,293	
Resource Conservation and Development	10.901	19,820	
Other—U.S. Department of Agriculture	10.999	3,332,400	

**Department of Commerce:**

Trade Development	11.110	82,006	
Economic Development—Support for Planning Organizations	11.302	206,539	
Economic Development—Technical Assistance	11.303	10,415	B
Economic Development—State and Local Economic Development Planning	11.305	160,632	
Special Economic Development and Adjustment Assistance Program—Sudden and Severe Economic Dislocation and Long-Term Economic Deterioration	11.307	1,554,665	B
Anadromous Fish Conservation Act Program	11.405	515,655	
Interjurisdictional Fisheries Act of 1986	11.407	172,208	
Coastal Zone Management Administration Awards	11.419	3,058,681	
Coastal Zone Management Estuarine Research Reserves	11.420	102,933	
Financial Assistance for Ocean Resources Conservation and Assessment Program	11.426	110,000	
Marine Sanctuary Program	11.429	102,812	
Public Telecommunications Facilities—Planning and Construction	11.550	167,504	
Other—U.S. Department of Commerce	11.999	70,177	

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>
<b>Department of Defense:</b>		
Navigation Projects	12.107	65,275
Planning Assistance to States	12.110	1,108,758
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	17,113,310
National Guard Military Operations and Maintenance Projects	12.401	4,040,060
National Guard Special Military Operations and Projects	12.402	59,827
National Guard Civilian Youth Opportunities Programs	12.404	9,238,040
Community Economic Adjustment Planning Assistance	12.607	1,587,493
Research and Technology Development	12.910	1,000,000
Other—U.S. Department of Defense	12.999	1,017,834
<b>Department of Housing and Urban Development:</b>		
Community Development Block Grants—State's Program	14.228	34,956,750 A
Emergency Shelter Grants Program	14.231	3,934,912
Supportive Housing Program	14.235	1,086,966
Home Investment Partnerships Programs	14.239	33,727,405 A
Housing Opportunities for Persons with AIDS	14.241	2,682,426
Equal Opportunity in Housing	14.400	888,280
Section 8 Rental Voucher Program	14.855	693,493
Lower Income Housing Assistance Program—Section 8 Moderate Rehabilitation	14.856	391,185
Section 8 Rental Certificate Program	14.857	2,189,294

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>
Lead-Based Paint Hazard Control Program	14.900	1,743,563
<b>Department of Interior:</b>		
Small Reclamation Projects	15.503	136,950
Anadromous Fish Conservation	15.600	315,150
Sport Fish Restoration	15.605	8,597,711
Environmental Contaminants	15.607	29,215
Fish and Wildlife Management Assistance	15.608	10,000
Wildlife Restoration	15.611	7,109,269
Endangered Species Conservation	15.612	1,419,506
Cooperative Endangered Species Conservation Fund	15.615	51,418
Clean Vessel Act	15.616	248,760
Geological Survey—Research and Data Acquisition	15.808	51,070
Historic Preservation Fund Grants-In-Aid	15.904	2,189,328
Outdoor Recreation—Acquisition, Development and Planning	15.916	1,454,526
Research Information	15.975	278,255
Other—U.S. Department of Interior	15.999	6,890,871
Shared Revenue—Potash/Sodium Lease	15.999	28,103,729 A
<b>Department of Justice:</b>		
Juvenile Justice and Delinquency Prevention—Allocation to States	16.540	6,920,662
Juvenile Justice and Delinquency Prevention—Special Emphasis	16.541	1,026,749



<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>	
National Criminal History Improvement Program	16.554	1,745,837	
Justice Research, Development and Evaluation Project Grants	16.560	213,250	
State Criminal Alien Assistance Program	16.572	30,508,880	A
Criminal Justice Discretionary Grant Program	16.574	7,624,944	
Crime Victim Assistance	16.575	6,859,763	
Drug Control and System Improvement—Formula Grant	16.579	40,131,052	A
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	33,000	
Other—U.S. Department of Justice	16.999	966,023	
<b>Department of Labor:</b>			
Labor Force Statistics	17.002	6,403,603	
Compensation and Working Conditions Data	17.005	828,789	
Labor Certification for Alien Workers	17.203	10,308,733	
Employment Service	17.207	103,418,924	A
Unemployment Insurance	17.225	397,186,126	A
Senior Community Service Employment Program	17.235	6,558,562	
Trade Adjustment Assistance—Workers	17.245	12,877,798	
Employment and Training Assistance—Dislocated Workers	17.246	219,040,275	A
Migrant and Seasonal Farmworkers	17.247	416,910	
Employment Services and Job Training—Pilot and Demonstration Programs	17.249	654,034	

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>	
Job Training Partnership Act	17.250	342,608,608	A
Occupational Safety and Health—State Program	17.503	19,387,664	
Consultation Agreements	17.504	4,105,616	
Mine Health and Safety Grants	17.600	263,732	
Women’s Special Employment Assistance	17.700	56,863	
Disabled Veterans Outreach Program	17.801	11,381,292	
Veterans’ Employment Program	17.802	866,342	
Local Veterans’ Employment Representative Program	17.804	6,833,339	
<b>Department of Transportation:</b>			
Boating Safety Financial Assistance	20.005	1,402,429	
Airport Improvement Program	20.106	189,380	
Highway Planning and Construction	20.205	1,981,056,609	A B
Motor Carrier Safety	20.217	2,961,827	
Motor Carrier Safety Assistance Program	20.218	23,259	
Railroad Safety	20.301	21,363	
Local Rail Freight Assistance	20.308	149,000	
Federal Transit Capital Improvement Grants	20.500	10,999,865	B
Federal Transit Technical Studies Grants	20.505	7,857,542	
Public Transportation for Nonurbanized Areas	20.509	8,392,015	
State and Community Highway Safety	20.600	13,550,485	
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	7,418,529	
Motorcycle Helmets and Safety Belt Incentive Grants	20.602	889,277	

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>	
Pipeline Safety	20.700	1,708,723	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	652,216	
Other—U.S. Department of Transportation	20.999	113,140	
<b>Department of Treasury:</b>			
Other—U.S. Department of Treasury	21.999	300	
<b>Equal Employment Opportunity Commission:</b>			
Employment Discrimination—State and Local Fair Employment Practices Agency Contracts	30.002	2,520,500	
<b>General Services Administration:</b>			
Donation of Federal Surplus Personal Property	39.003	10,027,792	**
<b>National Foundation on the Arts and the Humanities:</b>			
Promotion of the Arts—Art In Education	45.003	41,000	
Promotion of the Arts—State and Regional Program	45.007	706,875	
Promotion of the Arts—Local Arts Agencies Program	45.023	36,000	
Institute of Museum Services	45.301	13,556	
<b>National Science Foundation:</b>			
Engineering Grants	47.041	24,804	
Mathematical and Physical Sciences	47.049	95,492	
<b>Small Business Administration:</b>			
Procurement Assistance to Small Businesses	59.009	3,284,352	
Small Business Development Center	59.037	6,287,423	B

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received
<b>Department of Veterans Affairs:</b>		
Grants to States for Construction of State Home Facilities	64.005	9,251,722
Veterans State Domiciliary Care	64.014	3,607,523
Veterans State Nursing Home Care	64.015	5,758,270
Veterans State Hospital Care	64.016	162,784
All-Volunteer Force Educational Assistance	64.124	38,165
Other—U.S. Department of Veterans Affairs	64.999	913,307
<b>Environmental Protection Agency:</b>		
Air Pollution Control Program Support	66.001	6,736,789
Air Pollution Technical Information Services	66.006	73,250
Air Pollution Control—National Ambient Air and Source Emission Data	66.007	39,990
State Indoor Radon Grants	66.032	192,937
Construction Grants for Wastewater Treatment Works	66.418	207,504
Water Pollution Control—State and Interstate Program Support	66.419	4,157,869
State Underground Water Source Protection	66.433	398,160
Water Pollution Control—Lake Restoration Cooperative Agreements	66.435	177,009
Construction Management Assistance	66.438	6,933
Water Quality Management Planning	66.454	1,073,428
National Estuary Program	66.456	929,507
Capitalization Grants for State Revolving Funds	66.458	145,860,315 A
Nonpoint Source Implementation Grants	66.460	6,599,298

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>
Wetlands Protection—State Development Grants	66.461	691,821
EPA New Coastal Waters Program	66.462	2,348
National Pollutant Discharge Elimination System Related State Program Grants	66.463	323,594
Near Coastal Waters	66.464	119,451
Air Pollution Control Research	66.501	167,889
Water Pollution Control—Research, Development, and Demonstration	66.505	199,191
Safe Drinking Water Research and Demonstration	66.506	4,417,467
Toxic Substances Research	66.507	55,408
Consolidated Pesticide Compliance Monitoring and Program Cooperative Agreements	66.700	1,876,408
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	57,557
Pollution Prevention Grants Program	66.708	287,130
Hazardous Waste Management State Program Support	66.801	7,945,160
Superfund State Site—Specific Cooperative Agreements	66.802	4,102,219
State Underground Storage Tanks Program	66.804	403,830
Leaking Underground Storage Tank Trust Fund Program	66.805	3,795,438
Solid Waste Management Assistance	66.808	178,689
Other—U. S. Environmental Protection Agency	66.999	495,788
<b>Department of Energy:</b>		
State Energy Conservation	81.041	1,790,527

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>	
Weatherization Assistance for Low-Income Persons	81.042	4,694,628	
Environmental Research and Impact Assessments	81.046	145,751	
Energy Conservation for Institutional Buildings	81.052	1,790,684	
Conservation Research and Development	81.086	200,000	
Environmental Restoration	81.092	917,852	
National Industrial Competitiveness Through Energy, Environment, and Economics	81.105	295,000	
Other—U. S. Department of Energy	81.999	4,500	
<b>Federal Emergency Management Agency:</b>			
Civil Defense—State and Local Emergency Management Assistance	83.503	6,148,048	
State Disaster Preparedness Grants	83.505	3,236	
Disaster Assistance	83.516	384,759,140	A B
Earthquake Hazards Reduction Grants	83.521	1,466,490	
National Urban Search and Rescue (US&R) Response System	83.526	264,364	
Emergency Management Institute—Field Training Program	83.528	619,390	
State and Local Emergency Management Assistance—Other Assistance	83.531	894,272	
Facilities and Equipment	83.532	2	
Other—Federal Emergency Management Agency	83.999	200	
<b>Department of Education:</b>			
Adult Education—State Administered Basic Grant Program	84.002	30,771,895	A

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>	
Desegregation Assistance, Civil Rights Training, and Advisory Services	84.004	550,081	
Education of Children with Disabilities in State Operated or Supported Schools	84.009	43,967	
Title I Grants to Local Educational Agencies	84.010	715,968,996	A
Migrant Education—Basic State Grant Program	84.011	110,115,585	A
Educationally Deprived Children—State Administration	84.012	410,503	
Title I Program for Neglected and Delinquent Children	84.013	4,430,696	
Services for Children with Deaf—Blindness	84.025	534,713	
Special Education—Grants to States	84.027	285,160,674	A
Special Education—Personnel Development and Parent Training	84.029	395,280	
Federal Family Education Loans	84.032	331,636,212	A
Public Library Services	84.034	7,674,582	
Interlibrary Cooperation and Resource Sharing	84.035	2,315,092	
Vocational Education—Basic Grants to States	84.048	102,799,971	A B
Vocational Education—Consumer and Homemaking Education	84.049	1,043,266	
Vocational Education—State Councils	84.053	497,303	
State Student Incentives Grants	84.069	9,771,908	
Special Education—Program for Severely Disabled Children	84.086	117,848	
Rehabilitation Services—Vocational Rehabilitation Grants to States	84.126	200,082,765	A B
Rehabilitation Services—Service Projects	84.128	971,424	
Centers for Independent Living	84.132	2,996,174	

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>	
Chapter 2—State Block Grants	84.151	935,923	
Public Library Construction and Technology Enhancement	84.154	1,782,334	
Secondary Education and Transitional Services for Youth with Disabilities	84.158	562,980	
Immigrant Education	84.162	24,202,681	A
Eisenhower Mathematics and Science Education—State Grants	84.164	3,055,151	
Eisenhower Professional Development—Federal Activities	84.168	23,198	
Independent Living—State Grants	84.169	1,166,514	
Special Education—Preschool Grants	84.173	52,660,001	A
Vocational Education—Community Based Organizations	84.174	198,978	
Douglas Teacher Scholarships	84.176	444,454	
Special Education—Grants for Infants and Families with Disabilities	84.181	44,676,657	A
Byrd Honors Scholarships	84.185	848,325	
Safe and Drug-Free Schools—State Grants	84.186	47,108,281	A
Supported Employment Services for Individuals with Severe Disabilities	84.187	3,603,109	
Christa McAuliffe Fellowships	84.190	95,097	
Adult Education—Literacy Training for Homeless Adults	84.192	485,475	
Bilingual Education Support Services	84.194	1,011,146	
Education for Homeless Children and Youth	84.196	3,370,275	
Even Start—State Educational Agencies	84.213	9,657,932	



<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>
Even Start—Migrant Education	84.214	158,326
Fund for the Improvement of Education	84.215	186,130
Capital Expenses	84.216	19,800
State Program Improvement Grants	84.218	1,921,293
Student Literacy Corps and Student Mentoring Corps	84.219	579,500
State Grants for Assistive Technology	84.224	528,569
Tech-Prep Education	84.243	14,419,967
Foreign Languages Assistance	84.249	973,601
State Literacy Resource Centers	84.254	1,043,333
Rehabilitation Training—State Vocational Rehabilitation Unit In-Service	84.265	345,323
State Postsecondary Review	84.267	261,112
National Early Intervention Scholarship and Partnership	84.272	247,207
Goals 2000—State and Local Education Systemic Improvement Grants	84.276	8,201,607
Eisenhower Professional Development State Grants	84.281	24,124,637 A
Innovative Education Program Strategies	84.298	39,465,956 A

**Department of Health and Human Services:**

Public Health and Social Services Emergency Fund	93.003	3,860,102
Special Programs for the Aging—Title VII, Chapter 3—Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	194,876
Special Programs for the Aging—Title VII, Chapter 2—Long-Term Care Ombudsman Services for Older Individuals	93.042	305,603

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>
Special Programs for the Aging—Title III, Part F—Disease Prevention and Health Promotion Services	93.043	943,539
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	27,676,597 A
Special Programs for the Aging—Title III, Part C—Nutrition Services	93.045	41,690,582 A
Special Programs for the Aging—Title III, Part D—In Home Services for Frail Older Individuals	93.046	861,437
Special Programs for the Aging—Title IV—Training, Research and Discretionary Projects and Programs	93.048	3,473,194
Special Programs for the Aging—Title VII, Chapter 6—Allotments for Vulnerable Elder Rights Protection Programs	93.049	112,862
Special Programs for the Aging—Title II—Preconference Programs for the White House Conference on Aging	93.050	3,750
Grants for Residential Treatment Programs for Pregnant and Postpartum Women	93.101	4,820,865
Demonstration Grants for Residential Treatment for Women and Their Children	93.102	2,152,290
Food and Drug Administration—Research	93.103	1,314,109
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	3,183,728
Maternal and Child Health Federal Consolidated Programs	93.110	9,742
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	6,694,975
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	12,523,039
Mental Health Planning and Demonstration Projects	93.125	1,189,859

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>
Emergency Medical Services for Children	93.127	103,814
Grants for Technical Assistance Activities Related to the Block Grant for Community Mental Health Services—Mental Health Statistics Improvement Program	93.128	150,765
Injury Prevention and Control Research and State Grants Projects	93.136	174,649
Projects for Assistance in Transition from Homelessness (PATH)	93.150	3,898,456
Health Program for Toxic Substances and Disease Registry	93.161	661,803
Grants for State Loan Repayment	93.165	778,659
Community Youth Activity Program Demonstration Grants	93.170	20,290
Disabilities Prevention	93.184	375,957
Cooperative Agreements for Drug Abuse Treatment Improvement Projects in Target Cities	93.196	1,421,538
Demonstration Cooperative Agreements for Development and Implementation of Criminal Justice Treatment Networks	93.229	283,220
Mental Health Research Grants	93.242	564,004
Childhood Immunization Grants	93.268	72,290,667 A *
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.283	640,352
Cancer Control	93.399	73,792
Emergency Protection Grants—Substance Abuse	93.554	51,822
Family Preservation and Support Services	93.556	10,052,936
Family Support Payments to States—Assistance Payments	93.560	3,435,082,516 A

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>	
Job Opportunities and Basic Skills Training	93.561	123,069,215	A
Assistance Payments—Research	93.562	127,759	
Child Support Enforcement	93.563	288,597,969	A B
State Legalization Impact Assistance Grants	93.565	18,967,034	
Refugee and Entrant Assistance—State Administered Programs	93.566	56,025,812	A
Low-Income Home Energy Assistance	93.568	40,884,130	A B
Community Services Block Grant	93.569	22,170,709	A B
Community Services Block Grant Discretionary Awards—Community Food and Nutrition	93.571	591,487	
Emergency Community Services for the Homeless	93.572	1,713,573	
Child Care for Families At-Risk of Welfare Dependency	93.574	40,340,838	A
Child Care and Development Block Grant	93.575	126,472,044	A B
Refugee and Entrant Assistance—Discretionary Grants	93.576	159,032	
U.S. Repatriate Program	93.579	39,855	
Refugee and Entrant Assistance—Targeted Assistance	93.584	11,612,282	
Empowerment Zones Program	93.585	2,566,036	
Refugee Assistance—Naturalization and Citizenship Activities	93.589	293,412	
Head Start	93.600	132,826	
Developmental Disabilities Basic Support and Advocacy Grants	93.630	6,077,071	
Children’s Justice Grants to States	93.643	1,109,681	
Child Welfare Services—State Grants	93.645	30,949,196	A

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>	
Social Services Research and Demonstration	93.647	84,167	
Adoption Opportunities	93.652	2,169	
Temporary Child Care and Crisis Nurseries	93.656	873,109	
Foster Care—Title IV-E	93.658	622,724,341	A
Adoption Assistance	93.659	57,305,701	A
Social Services Block Grant	93.667	360,988,306	A
Child Abuse and Neglect State Grants	93.669	2,591,207	
Child Abuse and Neglect Discretionary Activities	93.670	230,139	
Family Violence Prevention and Services—Grants to States and Indian Tribes	93.671	1,983,372	
Community-Based Prevention Program	93.672	151,200	
Grants to States for Planning and Development of Dependent Care Programs	93.673	1,590,474	
Independent Living	93.674	11,555,317	
Medicare—Supplementary Medical Insurance	93.774	13,644,930	
State Medicaid Fraud Control Units	93.775	8,318,470	
State Survey and Certification of Health Care Providers and Suppliers	93.777	32,668,525	A B
Medical Assistance Program	93.778	8,778,415,593	A B
Health Care Financing Research, Demonstrations and Evaluations	93.779	704,866	
Model Comprehensive Drug Abuse Treatment Programs for Critical Populations	93.902	6,794,508	
Model Criminal Justice Drug Abuse Treatment for Incarcerated Populations, Nonincarcerated Populations, and Juvenile Justice Populations	93.903	3,851,276	
Grants to States for Operation of Offices of			

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>
Rural Health	93.913	586,324
HIV Care Formula Grants	93.917	32,470,460 A
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	4,992,808
Demonstration Grants to States for Community Scholarships	93.931	7,563
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	361,702
Assistance Program for Chronic Disease Prevention and Control	93.945	82,918
HIV/AIDS and Related Diseases Among Substance Abusers: Community-Based Outreach and Intervention Demonstration Programs	93.949	1,093,518
Demonstration Grants to States with Respect to Alzheimer's Disease	93.951	387,836
Block Grants for Community Mental Health Services	93.958	35,460,823 A
Block Grants for Prevention and Treatment of Substance Abuse	93.959	167,670,953 A
Preventive Health Services—Sexually Transmitted Diseases Control Grants	93.977	2,201,723
Mental Health Disaster Assistance and Emergency Mental Health	93.982	3,423,799
Health Programs for Refugees	93.987	138,858
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	298,865
Preventive Health and Health Services Block Grant	93.991	9,870,790

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>
Maternal and Child Health Services Block Grant to the States	93.994	38,543,758 A
Other—Department of Health and Human Services	93.999	5,366,744
<b>Corporation for National and Community Service:</b>		
Service America/Higher Education	94.001	2,471,150
State Commission	94.003	1,133,231
Americorps	94.006	12,563,805
Summer of Safety Youth Corps	94.008	37,819
Foster Grandparent Program	94.011	1,272,537
<b>Social Security Administration:</b>		
Social Security—Disability Insurance	96.001	154,659,273 A
Social Security—Research and Demonstration	96.007	427,343
<b>Miscellaneous Grants and Contracts:</b>		
Shared Revenue—Flood Control Lands	98.002	144,403
Shared Revenue—Grazing Land	98.004	182,158
U.S. Department of the Interior—Fire Prevention/Suppression Agreement	98.015	76,760
—U.S. Department of Agriculture and Various Other U.S. Department—Fire Prevention/Suppression	98.016	13,107,369

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amounts Received</b>
Miscellaneous Federal Receipts	98.099	2,706,233
<b>Total Grants Received</b>		<b><u>\$25,511,457,043</u></b>
<b>Total Major Grants Audited in Compliance With OMB, Circular A-128</b>		<b><u>\$24,802,498,807</u></b>

A The Bureau of State Audits reviewed these major grants for fiscal year 1995-96 in compliance with the OMB's Circular A-128.

B The Bureau of State Audits reviewed this grant in conjunction with various reports issued from July 1, 1995 to December 31, 1996. See the Schedule of Audit Reports Involving Federal Grants from July 1, 1995, to December 31, 1996, beginning on page 151 for a description of these reports.

\* This amount includes cash and the value of commodities or cash and the value of food stamps.

\*\* This amount represents the value of commodities or surplus property.



California State University  
**Schedule of Federal Assistance**  
for the Fiscal Year Ended June 30, 1996

Federal Agency/Pass-Through Grantor/Program Title	Federal Catalog Number	Federal Disbursements/ Expenditures
Department of Education:		
Federal Supplemental Education Opportunity Grant Program	84.007	\$ 10,531,103
Federal Work-Study Program	84.033	10,000,914
Federal Perkins Loan Program	84.038	17,802,232 *
Federal Pell Grant Program	84.063	148,700,293 *
National Science Scholars	84.242	10,472
Federal Family Education Loan Program	84.032	266,966,664 *
Special Education—Innovation	84.023	174,727
Services for Children with Deaf-Blindness	84.025	322,349
Special Education—Personnel Development	84.029	934,890
Higher Education—Cooperative Education	84.055	133,704
Postsecondary Education Program for Persons with Disabilities	84.078	116,558
Harris Fellowship	84.094	67,414
Fund for the Improvement of Postsecondary Education	84.116	73,761
Rehabilitation Long-Term Training	84.129	319,369
National Institute on Disability and Rehabilitation Research	84.133	21,333
Budget Assistance in Area of National Need	84.200	390,323
Women and Minority Participation in Graduate Education	84.202	71,386

Federal Agency/Pass-Through Grantor/Program Title	Federal Catalog Number	Federal Disbursements/Expenditures
Urban Community Services	84.252	243,093
Rehabilitation Training	84.263	38,939
Training in Early Childhood Education	84.266	312,781
Student Support Services	84.042a	163,977
Critical Language and Area Studies	84.273a	97,070
Douglas Teacher Scholarship	84.176	10,000
William Ford Direct Loan Program	84.268	211,080,812 *
Byrd Honors Scholarships	84.185	18,000
		<hr/> 668,602,164 <hr/>
Federal Emergency Management Agency—Passed Through the California State Office of Emergency Services—Disaster Recovery Assistance	83.516	30,627,276 *
Department of Labor—Employment and Training Assistance	17.246	\$ 120,698
Department of Health and Human Services:		
Professional Nurses Traineeship	93.358	28,080
Nursing Student Loan	93.364	74,805
Scholarship for the Disadvantaged	93.925	95,287
Social Services	93.576	117,829
Child Support Enforcement	93.023	74,425
Minority International Research Grant	93.106	283,526
Biological Response to Environmental Health Hazards	93.113	4,482
Minority Community Health Coalition	93.137	255,568

Federal Agency/Pass-Through Grantor/Program Title	Federal Catalog Number	Federal Disbursements/ Expenditures
Community Youth Activity Program	93.171	60,382
Drug Abuse Treatment Improvement Project	93.196	147,149
Biological Models Research	93.198	5,167
Health Services Research Grant	93.226	139,720
Advanced Nurse Education	93.299	171,999
General Clinical Research Centers	93.333	7,732
Biomedical Research Support	93.337	131,174
Professional Nurse Traineeships	93.358	101,542
Academic Research Enhancement Award	93.390	54,853
Assistance Payment—Research	93.562	22,633
Biophysics and Physiological Science	93.821	33,859
Digestive Diseases Research	93.848	5,498
HIV Demonstration Research and Education	93.941	114,544
Community Service Learning	94.005	12,087
		<hr/> 1,942,341 <hr/>
Department of Housing and Urban Development—Community Development Block Grant	14.228	5,000
Department of the Interior:		
Fish and Wildlife Services	15.612	65,585
Endangered Species	15.162	847,690
Endangered Species RT	None	711
Geological Survey—Research	15.808	33,466

Federal Agency/Pass-Through Grantor/Program Title	Federal Catalog Number	Federal Disbursements/ Expenditures
Bureau of Indian Affairs	None	12,768
Natural Landmark Program	15.910	4,860
		<hr/> 965,080 <hr/>
Department of Agriculture:		
Grants for Agriculture	10.206	\$ 11,815
Multicultural Scholars Program	10.217	14,000
Agricultural Clinic Program	10.217	8,350
Forestry Research	10.652	69,117
		<hr/> 103,282 <hr/>
Department of Commerce:		
Coastal Zone Management Estaurine Research Reserve	11.420	16,877
Marine Sanctuary Program	11.429	58,304
Marine Fisheries Initiative	11.433	2,500
		<hr/> 77,681 <hr/>
Department of Defense:		
Navigation Projects	12.107	65,936
Selected Reserve Educational Assistance	12.609	370,642
Language Grant Program	12.900	56,270
Mathematical Sciences Grant	12.901	4,968
		<hr/> 497,816 <hr/>

Federal Agency/Pass-Through Grantor/Program Title	Federal Catalog Number	Federal Disbursements/ Expenditures
Department of Justice—Juvenile Justice and Delinquency Prevention	16.540	78,801
Department of Transportation—State Marine Schools	20.806	200,000
National Aeronautics and Space Administration:		
Aerospace Education Service Program	43.001	319,950
Technology Transfer	43.002	21,245
		<hr/> 341,195 <hr/>
National Foundation on the Arts and Humanities:		
Promotion of the Arts—Media	45.006	22,220
Promotion of the Arts—Arts Fellows Program	45.021	8,100
		<hr/> 30,320 <hr/>
National Science Foundation:		
Biology Interactive Curriculum	47.076	\$ 14,482
Engineering Grants	47.041	34,878
Mathematical and Physical Sciences	47.049	16,117
Geosciences	47.050	121,362
Biological—Behavioral Science	47.051	200,454
Teacher Preparation and Enhancement	47.066	106,498
Material Development and Information	47.067	71,837
Studies, Evaluation and Dissemination	47.068	1,273,156
Computer and Information Science	47.070	90,032
Science and Technology	47.073	522,755
Biological Sciences	47.074	450,293

Federal Agency/Pass-Through Grantor/Program Title	Federal Catalog Number	Federal Disbursements/ Expenditures
Social Behavioral Sciences	47.075	42,046
Education and Human Resources	47.076	240,243
Academic Research Facilities	47.077	38,290
		<hr/> 3,222,443 <hr/>
Small Business Administration—Business Development Assistance	59.005	10,141
Environmental Protection Agency:		
Air Pollution Training Program	66.000	62,102
Hazardous Waste Management Support	66.801	7,462
		<hr/> 69,564 <hr/>
Department of Energy—Basic Energy Sciences	81.049	151,040
United States Information Agency—Educational Exchange	82.002	<hr/> 6,592 <hr/>
		<hr/> <b>\$707,051,434</b> <hr/>

\*The California State University's independent auditors reviewed these major grants for fiscal year 1995-96 in compliance with the OMB's Circular A-128.

**NOTES TO SCHEDULES OF FEDERAL ASSISTANCE  
FISCAL YEAR ENDED JUNE 30, 1996**

**1. General**

The accompanying State of California Schedule of Federal Assistance presents the total amount of federal financial assistance programs received by the State of California for the fiscal year ended June 30, 1996. This schedule does not include federal revenue received by the University of California. The revenues of the University of California are audited by other independent auditors in accordance with the Office of Management and Budget (OMB), Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Organizations*.

The accompanying California State University (CSU) Schedule of Federal Financial Assistance presents the total amount of federal assistance expended by the CSU for the year ended June 30, 1996. The CSU receives federal assistance directly from the federal government and other sources. The federal assistance programs administered by the CSU are based on the expenditures/ disbursements of grant funds. For fiscal year ended June 30, 1996, the CSU reported grant expenditures of approximately \$707 million, which closely approximates the amount the CSU received during that period. These federal grants were audited by other independent auditors in accordance with OMB, Circular A-128, *Audits of State and Local Governments*.

**2. Basis of Accounting**

The OMB, Circular A-128, *Audits of State and Local Governments*, and the Single Audit Act of 1984 require the Schedule of Federal Assistance to present total expenditures for each federal assistance program. However, although the state accounting system separately identifies revenues for each federal assistance program, it does not separately identify expenditures for each program. As a result, the State prepares its Schedule of Federal Assistance on a revenue basis. The schedule shows the amount of federal funds and the estimated value of food stamps, commodities, and surplus property received by the State for the year ended June 30, 1996.

The CSU prepares its Schedule of Federal Assistance on an expenditures and/or disbursements basis (cash basis).

**3. Definition of Major Program**

The Single Audit Act of 1984 established the criteria for determining if a federal financial assistance program is a major federal program. The State considers federal financial assistance, including value of food stamps, commodities, and surplus property of \$20 million or more, as major federal assistance programs.

The accompanying CSU Schedule of Financial Assistance presents the total amount of federal assistance expended by the CSU for the year ended June 30, 1996.

**4. Other**

The State received \$11,484,283 in Petroleum Violation Escrow Funds that can be used to supplement four federal energy-related conservation and assistance programs and for various

federally-approved projects. The funds were audited to the extent required by the OMB's Circular A-128.

The State was also loaned \$29,740,724 in federal excess personal property (FEPP) from the U.S. Forest Service during the period October 1, 1995 to September 30, 1996. The U.S. Forest Service was unable to provide us with the FEPP loaned to the State during the State's fiscal year. Also, the U.S. Forest Service and the State maintain the FEPP program at federal acquisition costs of the related property which does not represent the properties fair market value.



## **Independent Auditors' Report on Compliance With State Laws and Regulations**

## **Independent Auditors' Report on Compliance With State Laws and Regulations**

The Governor and the Legislature of  
the State of California

We have audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1996, and have issued our report thereon dated November 27, 1996. We did not audit the financial statements of the pension trust funds, which reflect total assets constituting 82 percent of the fiduciary funds. We also did not audit the financial statements of certain enterprise funds, which reflect total assets and revenues constituting 86 percent and 90 percent, respectively, of the enterprise funds. In addition, we did not audit the University of California funds. Finally, we did not audit the financial statements of certain component unit authorities, which reflect total assets and revenues constituting 97 percent and 95 percent, respectively, of the component unit authorities. The financial statements of the pension trust funds, certain enterprise funds, and the University of California funds referred to above were audited by other auditors who furnished their reports to us, and our opinion, insofar as it relates to the amounts included for the pension trust funds, certain enterprise funds, and the University of California funds, is based solely upon the reports of other independent auditors.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

The State's management is responsible for compliance with laws, regulations, contracts, and grants applicable to the State of California. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the State of California's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the State of California complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of California had not complied, in all material respects, with those provisions. However, we noted certain immaterial instances of noncompliance that we have reported to the management of agencies of the State of California. We discuss these on pages 9 through 46 of this report.

This report is intended for the information of the governor and Legislature of the State of California and the management of the executive branch. However, this report is a matter of public record and its distribution is not limited.

BUREAU OF STATE AUDITS

PHILIP J. JELICICH, CPA  
Deputy State Auditor

May 16, 1997

## Appendix A      Reports Issued by the Bureau of State Audits From July 1, 1995, to December 31, 1996

Date of Issue	Report Title	Report No.
<b><u>1995</u></b>		
July 27	Department of Health Services: The Orange County District Office Needs To Further Improve Its Oversight of Health Care Facilities	94117
Aug 1	Department of Health Services: Drug Treatment Authorization Requests Continue to Increase	95011
Aug 2	Department of Education: Has Not Spent Millions for Child Care and Development Services	94111
Aug 8	Investigations of Improper Governmental Activities January 1 Through June 30, 1995	195-2
Aug 22	Department of Rehabilitation: Business Enterprise Program for the Blind Financial Report Year Ended June 30, 1994	93031
Sept 12	State Departments: Many Do Not Comply With Consultant Contract Requirements	94015
Sept 13	Los Angeles County Metropolitan Transportation Authority	95117
Oct 11	Department of Fish and Game: Administrative Processes Need Improvement	94106
Nov 1	Trade and Commerce Agency: The Effectiveness of the Employment and Economic Incentive and Enterprise Zone Programs Cannot Be Determined	93109
Nov 15	Department of Motor Vehicles: No Firefighters' License Plates Have Been Issued to the Public	93033
Nov 15	Department of Motor Vehicles: Collegiate License Plate Revenues Have Been Overallocated	95020

<b>Date of Issue</b>	<b>Report Title</b>	<b>Report No.</b>
Nov 21	Department of Forestry and Fire Protection: A Review of Allegations Concerning the State's Management of the Federal Excess Personal Property Program	94101
Nov 29	CSU and UC: Campuses Generally Provide Access for Students With Disabilities	94120
Dec 12	Student Aid Commission: Problems Continue With Its Automated Financial Aid Processing System	95021
Dec 12	Treasurer's Cash Count (May 31, 1995)	95007
<b><u>1996</u></b>		
Jan 3	Board of Equalization: Policies and Cost Assessment Methods for Special Tax Jurisdictions Need Reconsideration	95022
Jan 4	California Community Colleges: The Chancellor's Office Inadequately Controlled Its Economic Development Program and, Along With the Department of Education, Circumvented State Contracting Procedures	94123
Jan 9	Department of Insurance: Needs To Refine Its Cost Model for Insurance Examination and Proposition 103 Fees	95018
Jan 17	The California Cemetery Board: Incompatible Activities and Breaches of Fiduciary Duties Over Cemetery Trust Funds	I950038
Jan 30	Department of Health Services: Drug Treatment Authorization Requests Continue To Increase	96011
Jan 31	Office of Emergency Services: Has Met Most of Its Emergency Management Responsibilities Despite Administrative Problems	95114
Feb 27	Orange County Transportation Authority: An Analysis of Its Financial Resources and Obligations	95121
Feb 28	State of California: Financial Report Year Ended June 30, 1995	95001

Date of Issue	Report Title	Report No.
Feb 29	California Transportation Commission and Department of Transportation: The State's Use of Transportation Funds Generated by the 1989 Transportation Blueprint Legislation	95014
Mar 5	Investigations of Improper Governmental Activities: July 1 Through December 31, 1995	I96-1
Mar 12	Oakland Unified School District: A Review and Comparison of Various Costs	96105
Mar 27	Department of Health Services: Has Not Collected \$40 Million in Supplemental Rebates From Drug Manufacturers	95109
Mar 28	Los Angeles County: Balanced Budgets Will Be a Continuing Challenge	96018
Apr 3	Department of Insurance: The Management of Conserved Insurers Has Improved, but Problems With Liquidation and Administration Continue	94118
Apr 4	Metropolitan Water District of Southern California: A Review of Evaluations and Audits Conducted by Other Entities	95105
Apr 9	Prison Industry Authority: Statutory and Cost Control Problems Adversely Affect the State	95106
Apr 15	University of California: The Award and Administration of the Tobacco and Breast Cancer Research Grant Programs Need Improvement	96101
Apr 24	Trade and Commerce Agency: More Can Be Done To Measure the Return on the State's Investment and To Oversee Its Activities	95118
Apr 29	Treasurer's Cash Count (June 30, 1995)	95006

<b>Date of Issue</b>	<b>Report Title</b>	<b>Report No.</b>
May 8	State of California: Statement of Securities Accountability of the State Treasurer's Office June 30, 1995	95008
May 20	California Community Colleges: The State Paid Millions of Dollars to Community Colleges for Questionable Training Agreements	96103
May 21	State Bar of California: Opportunities Exist To Reduce Fees, Better Control Administration and Planning, and Strengthen an Improved Discipline Process	96021
June 27	State of California: Improvements Have Occurred in Controlling Costs, but Some Problems Remain (\$10)	95002
June 30	State of California: Single Audit Report Year Ended June 30, 1995 (Copies can be obtained through DOF, 322-2985)	95003
July 2	California Department of Food and Agriculture: Improvement Is Needed in the Oversight of Market Enforcement Activities	96102
Aug 1	Department of Health Services: Drug Treatment Authorization Requests Continue To Increase	96012
Aug 15	State Contracting: Reforms Are Needed To Protect the Public Interest	95015
Aug 21	Oakland Unified School District: Current Practices Have Improved Its Financial Condition	96105.1
Aug 22	California State Lottery: Opportunities Exist To Improve Planning, Reduce Administrative Costs, and Increase Sales Efficiency	96107.1
Aug 28	Los Angeles County Metropolitan Transportation Authority: Planning and Budgeting of Its Operations and Bus Plan Need Improvement	96114
Aug 30	Treasurer's Cash Count (Feb. 29, 1995)	96005

<b>Date of Issue</b>	<b>Report Title</b>	<b>Report No.</b>
Sept 9	Investigative Report: Misappropriation of Public Funds, False Claims, and Gross Mismanagement by Employees of the Department of Education	I940262
Sept 12	Child Support Pilot Projects: Effectiveness Cannot Be Determined With Existing Data	93032
Sept 16	Investigations of Improper Governmental Activities: January 1 Through July 31, 1996	I96-2
Oct 1	Employment Training Panel: Has Achieved Many of Its Training Program Responsibilities Despite Some Administrative and Planning Problems	96023
Oct 2	Office of Historic Preservation: Did Not Always Comply With Requirements for Sole-Source Contracts	95115
Oct 3	California Conservation Corps: Further Revisions Would Improve Its Performance-Based Budgeting Plan	95124
Oct 16	Investigative Report: Theft of Funds From a Long-Term Savings Plan by a State Employee	I960030
Oct 23	Los Angeles County: The Department of Children and Family Services Can Improve Its Processes To Protect Children From Abuse and Neglect	96106
Nov 14	Department of Transportation: Further Improvements Can Be Made in the Management of Properties Along the State Route 710 Right-of-Way	95111
Nov 19	Statewide Redevelopment Agencies: Broad Project Discretion and Inadequate Information Make Comparison and Evaluation Difficult	95125
Nov 21	Los Angeles County: Budget Challenges Continue, and the Sheriff's Department Could Achieve Savings	96019



Date of Issue	Report Title	Report No.
Dec 27	Treasurer's Cash Count (June 30, 1996)	96006
Dec 30	State of California: Financial Report Year Ended June 30, 1996	96001
Dec 31	Department of Transportation: No Activity in the Seismic Retrofit Bond Fund for the Fiscal Year Ended June 30, 1996	96022

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**DEPARTMENT OF FINANCE**

OFFICE OF THE DIRECTOR  
STATE CAPITOL, ROOM 1145  
SACRAMENTO, CA 95814-4998



June 20, 1997

Mr. Kurt R. Sjoberg  
State Auditor  
660 J Street, Suite 300  
Sacramento, CA 95814

Dear Mr. Sjoberg:

**STATE OF CALIFORNIA: INTERNAL CONTROL AND STATE AND FEDERAL  
COMPLIANCE AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 1996**

Thank you for the opportunity to respond to the internal control and compliance audit report. This report was the result of your examination of the State's general purpose financial statements for the fiscal year ended June 30, 1996, and will be part of the Single Audit Report covering this period. Although our systems can always be improved, the fact that the cumulative findings do not adversely affect the State's general purpose financial statements is evidence that the State's operations are materially under control.

California is an entity with numerous programs and activities being carried out for its citizens and is much more complex and vast than most economic entities in the world. Such complexity, along with budget constraints, challenge us to not only meet the requirements of those programs and activities, but to do so in a manner that is effective and efficient. Moreover, such operations must exist within a process of internal control that safeguards assets and resources and produces reliable financial information. Attaining these objectives and overseeing the financial and business practices of the State continues to be an important aspect of the Department of Finance's leadership for the State.

In meeting our responsibility for financial leadership and oversight, the Department of Finance conducts internal control reviews of state departments and reviews areas of potential weakness in the State's fiscal systems. In addition, we provide oversight of internal audit units at individual departments, including the providing of audit guidelines and conducting quality assurance reviews of their work. Further, several years ago, we started a process of issuing Audit Memos to departments to establish policy or provide technical advice on various audit related issues. We will soon be issuing an Audit Memo concerning the results of the fiscal year 1995-96 Single Audit.

Mr. Kurt R. Sjoberg  
Page 2

The head of each state department is responsible for establishing and maintaining Internal control within their department. This responsibility includes documenting the controls, communicating control requirements to employees, and assuring that controls are functioning as prescribed and are modified for changes in conditions. Moreover, all levels of management of state departments must be involved in assessing and strengthening the Internal controls to minimize fraud, errors, abuse, and waste of government funds.

Each department for which you have identified Internal control weaknesses is responsible for developing corrective action plans. We will monitor the corrective actions included in their responses to your findings.

The Department of Finance will continue to provide the leadership to ensure the proper financial operations and business practices of the State, and to ensure that Internal controls exist for the safeguarding and effective use of assets and resources.

If you have any questions concerning this letter, please contact Samuel E. Hull, Chief, Office of State Audits and Evaluations, at (916) 322-2985.

Sincerely,

CRAIG L. BROWN  
Director